

**REPORT OF THE AUDIT OF THE
HART COUNTY
SHERIFF'S SETTLEMENT - 2004 TAXES**

April 22, 2005



**CRIT LUALLEN
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
HART COUNTY
SHERIFF'S SETTLEMENT - 2004 TAXES**

April 22, 2005

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2004 Taxes for Jeff Staples, former Hart County Sheriff as of April 22, 2005. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The former Sheriff collected taxes of \$4,529,245 for the districts for 2004 taxes, retaining commissions of \$159,491 to operate the Sheriff's office. The former Sheriff distributed taxes of \$4,367,845 to the districts for 2004 Taxes. Taxes of \$1,925 are due to the districts from the former Sheriff and a refund of \$5 is due to the former Sheriff from the state as of April 22, 2005.

Report Comments:

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties
- The Former Hart County Sheriff, Jeff Staples, Had A Deficit Of \$3,324 In His Tax Account As Of April 22, 2005
- The Depository Institution Should Have Provided Additional Collateral Of \$1,089,301 To Protect Deposits

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Terry Martin, Hart County Judge/Executive
Honorable Jeff Staples, Former Hart County Sheriff
Members of the Hart County Fiscal Court

Independent Auditor's Report

We have audited the Hart County Sheriff's Settlement - 2004 Taxes as of April 22, 2005. This tax settlement is the responsibility of the former Hart County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Hart County Sheriff's taxes charged, credited, and paid as of April 22, 2005, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated December 21, 2005, on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Terry Martin, Hart County Judge/Executive
Honorable Jeff Staples, Former Hart County Sheriff
Members of the Hart County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Former Hart County Sheriff, Jeff Staples, Had A Deficit Of \$3,324 In His Tax Account As Of April 22, 2005
- The Depository Institution Should Have Provided Additional Collateral Of \$1,089,301 To Protect Deposits
- The Former Sheriff's Office Lacked Adequate Segregation Of Duties

Our audit was conducted for the purpose of forming an opinion on the Hart County Sheriff's Settlement – 2004 Taxes. The accompanying schedule of excess of liabilities over assets listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
December 21, 2005

HART COUNTY
JEFF STAPLES, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2004 TAXES

April 22, 2005

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 447,542	\$ 491,853	\$ 2,126,852	\$ 580,475
Tangible Personal Property	41,809	50,808	182,928	181,324
Intangible Personal Property				12,353
Fire Protection	2,167			
Increases Through Exonerations	79	90	328	154
Franchise Corporation	100,243	116,614	395,554	
Additional Billings	66	73	293	86
Oil and Gas Property Taxes	398	437	1,752	516
Limestone, Sand, and Mineral Reserves	134	147	802	173
Penalties	4,438	4,870	20,809	5,921
Adjusted to Sheriff's Receipt	(119)	16		9
Gross Chargeable to Sheriff	<u>\$ 596,757</u>	<u>\$ 664,908</u>	<u>\$ 2,729,318</u>	<u>\$ 781,011</u>
<u>Credits</u>				
Exonerations	\$ 1,280	\$ 1,404	\$ 5,941	\$ 1,916
Discounts	7,176	7,942	33,866	11,947
Delinquents:				
Real Estate	11,418	12,510	53,173	14,764
Tangible Personal Property	293	357	1,133	1,193
Intangible Personal Property				94
Uncollected Franchise	<u>12,221</u>	<u>14,101</u>	<u>50,020</u>	
Total Credits	<u>\$ 32,388</u>	<u>\$ 36,314</u>	<u>\$ 144,133</u>	<u>\$ 29,914</u>
Taxes Collected	\$ 564,369	\$ 628,594	\$ 2,585,185	\$ 751,097
Less: Commissions *	<u>24,273</u>	<u>25,671</u>	<u>77,338</u>	<u>32,209</u>
Taxes Due	\$ 540,096	\$ 602,923	\$ 2,507,847	\$ 718,888
Taxes Paid	539,555	602,624	2,506,762	718,904
State 10% Penalty				<u>11</u>
Due Districts or (Refund Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ 541</u>	<u>\$ 299</u>	<u>\$ 1,085</u>	<u>\$ (5)</u>

*, **, and *** See Next Page.

The accompanying notes are an integral part of this financial statement.

HART COUNTY
 JEFF STAPLES, FORMER SHERIFF
 SHERIFF'S SETTLEMENT - 2004 TAXES
 April 22, 2005
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	1,516,421
3.25% on	\$	1,917,128
2.25% on	\$	668,057
4% on	\$	417,639

** Special Taxing Districts:

Library District	\$	109
Ambulance District		<u>190</u>

Due Districts	\$	<u><u>299</u></u>
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*** School Districts:

Caverna School District	\$	771
Common School District		<u>314</u>

Due Districts	\$	<u><u>1,085</u></u>
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HART COUNTY
JEFF STAPLES, FORMER SHERIFF
NOTES TO FINANCIAL STATEMENT

April 22, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, on December 7, 2004, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$1,089,301 of public funds uninsured and unsecured.

HART COUNTY
 JEFF STAPLES, FORMER SHERIFF
 NOTES TO FINANCIAL STATEMENT
 April 22, 2005
 (Continued)

Note 2. Deposits (Continued)

The official's deposits are categorized below to give an indication of the level of risk assumed by the official on December 7, 2004.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	1,856,164
Uncollateralized and uninsured	<u>1,089,301</u>
Total	<u>\$ 3,045,465</u>

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2004. Property taxes were billed to finance governmental services for the year ended June 30, 2005. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 29, 2004 through April 22, 2005.

Note 4. Interest Income

The former Hart County Sheriff earned \$1,184 as interest income on 2004 taxes. The former Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office. As of December 21, 2005, the former Sheriff owed \$49 in interest to the school districts and \$47 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The former Hart County Sheriff collected \$28,348 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The former Hart County Sheriff collected \$1,620 of advertising costs and \$3,035 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The former Sheriff distributed the advertising costs to the fee account as required by statute, and the advertising fees will be used to operate the Sheriff's office.

SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

HART COUNTY
JEFF STAPLES, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2004 TAXES
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

April 22, 2005

Assets

Cash in Bank, Subsequent Deposits and Paid Liabilities	\$	421
Receivables:		
Kentucky State Treasurer	\$	5
Tax Commissions Due From Sheriff's Fee Account		227
Caverna Independent School (Commissions)		48
		<hr/>
Total Receivables		<hr/> 280
Total Assets	\$	701

Liabilities

Unpaid Obligations-		
Other Taxing Districts-		
Hart County Fiscal Court	\$	541
Hart County Board of Education		771
Caverna Independent School		314
Library District		109
Ambulance District		190
Returned Check Fee Due Fee Account		107
Interest Due Sheriff's Fee Account		47
Interest Due Hart County Board of Education		26
Interest Due Caverna Independent School		23
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Total Liabilities and Unpaid Obligations		<hr/> 2,128
Total Deficit - 2004 Taxes as of April 22, 2005	\$	<hr/> <hr/> (1,427)

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COMMENTS AND RECOMMENDATIONS

HART COUNTY
JEFF STAPLES, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS

As of April 22, 2005

STATE LAWS AND REGULATIONS:

The Former Hart County Sheriff, Jeff Staples, Had A Deficit Of \$3,324 In His Tax Account As Of April 22, 2005

There was a cumulative deficit of \$3,324 in the former Sheriff's official tax account as of April 22, 2005. There was a prior year deficit of \$1,897 in the former Sheriff's 2003 tax account. In addition, there was a deficit of \$1,427 in the former Sheriff's 2004 tax account. The 2004 deficit of \$1,427 resulted from un-deposited receipts of \$1,236 and unexplained difference of \$191. We recommend that the Sheriff deposit personal funds of \$3,324 into his tax account to eliminate this deficit.

Former Hart County Sheriff Jeff Staples' Response:

I decided to pay all of the 2003 and 2004 tax liabilities with personal checks, instead of depositing personal funds into my official bank accounts. The auditor determined these liabilities. Personal checks were written to the applicable taxing districts and fiscal court. I also sent copies of these checks to the auditor. Beside each check was the signature of the person from the taxing district or fiscal court that received the check. By writing personal checks to the taxing districts and fiscal court, I have eliminated the deficit noted above.

The Depository Institution Should Have Provided Additional Collateral Of \$1,089,301 To Protect Deposits

On December 7, 2004, \$1,089,301 of the former Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times.

Former Hart County Sheriff Jeff Staples' Response:

None.

INTERNAL CONTROL – REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES:

The Former Sheriff's Office Lacked Adequate Segregation Of Duties

The former Sheriff's office had a lack of segregation of duties over receipts and expenditures. Due to the entity's diversity of official operations, small size, and budget restrictions, the official had limited options for establishing an adequate segregation of duties. The following compensating controls could have been implemented to help offset this internal control weakness:

- The former Sheriff should have periodically compared daily bank deposits with the daily checkout sheet and then compared the daily checkout sheet the receipts ledger. Any differences should have been reconciled on paper and kept for records. The former Sheriff could have documented his comparisons by initialing the bank deposit, daily checkout sheet, and receipts ledger.

HART COUNTY
JEFF STAPLES, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
As of April 22, 2005
(Continued)

The Former Sheriff's Office Lacked Adequate Segregation Of Duties (Continued)

- The former Sheriff should have compared the monthly tax reports to receipts and disbursements ledger. Any differences should have been reconciled on paper and kept for records. This could have been documented by initialing the monthly tax reports, receipts ledger, and disbursements ledger.
- The former Sheriff should have periodically recounted and deposited the cash. This could have been documented by initialing the bank reconciliation and the balance in the checkbook.
- The former Sheriff should have had dual signatures on all disbursement checks.

Former Hart County Sheriff Jeff Staples' Response:

None.

PRIOR YEAR:

The prior year audit report contained the following comments and recommendations, which have not been corrected:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$655,612 To Protect Deposits
- Internal Control Structure Lacks Adequate Segregation Of Duties

The prior year audit report contained the following comment and recommendation, which has been corrected:

- The Sheriff Should Have Advertised His Own Delinquent Taxes In The Newspaper And Made Timely Deposits On Tax Funds

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Terry Martin, Hart County Judge/Executive
Honorable Jeff Staples, Former Hart County Sheriff
Members of the Hart County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial Statement
Performed In Accordance With Government Auditing Standards**

We have audited the Hart County Sheriff's Settlement - 2004 Taxes as of April 22, 2005, and have issued our report thereon dated December 21, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Hart County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above, to be a material weakness.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Hart County Sheriff's Settlement - 2004 Taxes as of April 22, 2005 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Former Hart County Sheriff, Jeff Staples, Had A Deficit Of \$3,324 In His Tax Account As Of April 22, 2005
- The Depository Institution Should Have Provided Additional Collateral Of \$1,089,301 To Protect Deposits

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
December 21, 2005

